GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:6246
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VIABILITY GAP FUND
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Will the Minister of FINANCE be pleased to state:

(a) whether their is a viability gap fund rests with the Ministry of Finance;

(b) if so, the details thereof; and

(c) the guidelines for use of this fund on different projects undertaken by Ministries and Departments?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S. S. PALANEMANICKAM)

a) Yes Sir,

b) An allocation of Rs. 1500 crore has been made to provide support to Public Private Partnership projects in infrastructure during the year 2005-06

c) Copy of the guidelines is attached.

Guidelines for Support to Public Private Partnerships in infrastructure

1. Government of India recognizes that there are significant shortcomings in the availability of critical infrastructure in the country at Central as well as Stole and local level and that this is hindering rapid economic development. In addition, the development of infrastructure requires vary iarge investments that may not be possible out of the budgetary resources of Government of India alone, In order to remove these shortcomings and to bring in private sector resources as weil as techno-managerial efficiencies, the Government is committed to promoting Public Private Partnerships (PPPs) in infrastructure development.

2.It is also recognised that Infrastructure projects have a long gestation period and may not all be fully financially viable on their own. On the ether hand, financial viability can often be ensured through a mechanism that provides government support to reduce project costs. The Government of India therefore proposes to set up a special facility to provide such support to`.PPP projects. This support is generically termed as `viability gap funding` throughout this document. This facility will be housed in the Department of Economic Affairs (DEAJ. Suitable budgetary provisions will be made on a year to year basis.

3. In order to operational this facility the following guidelines are now issued.

Criteria

4. In order to be eligible for funding under this facility PPP projects shall meet the following criteria:

(i) The project must be implemented, i.e. constructed, maintained and operated during the project term, by an entity with at least 40% private equity.

(ii) The project must belong to one of the following sectors;

a. Roads, railways, seaports, airports;
b. Power;
c. Water supply, sewerage and solid waste disposal in urban areas and
d. International convention centres,

(iii) The projects should have been vetted/endorsed by the concerned fine ministries in the Government of India.

(iv) All central projects should have received requisite Government approval ot the appropriate level.

(v) The total Government support required by the project, including support from the Government of India under this facility, or any other sources of the Government of India and its agencies, as wei! as support from state governments and its agencies, must not exceed twenty percent of the total project cost as estimated in the preliminary project appraisal, or the actual project cost, whichever is lower.

(vi) The implementing agency must be selected through a transparent and open competitive process. The main criterion for selection will be the extent of viability gap funding required by the private partner to successfully implement the project. The extent of viability gap funding shall be determined on the basis of the net present value of the actual viability gap funding required. For this purpose and for all calculations under these guidelines, the rate of discount shall be the rate of interest on 10-year gilts on the date of submission of the bid.

Funding

5. Viability gap funding can take various forms, including but not limited to,capital grant,subordinatedloans, Operation&Management (O&M) support grants or interest subsidy. A mix of capital and revenue support may also be considered.

6. The funding will be disbursed contingent on agreed milestones, preferably physical,and performance levels being achieved, as detailed in funding agreements.

7. The funding will be provided in instalments, preferably in the form of annuities, and with at least 15% of the funding to be disbursed only afier the project is fully functioning.

8. In the first year of the facility, funding will be allocated to projects on a first-come,first served basis subject to meeting the eligibility criteria. In later years funding will be provided based on an appropriate formula that balances needs across sectors.

Appraisal and Approval Procedures

9. An Empowered Committee chqired by the Additional Secretary (EA) and including Financial Advisor, Ministry of Finance, Joint Secrefary (Budget),Joint Secretary (PF-ll,JS (Banking) and Joint Secretary of the concerned ministry, with Joint Secretary (FT),DEA as member-Secretary, will consider project proposals for viability gap funding.This Committee will ba authorised to sanction viability gap funding upto R5 50 crores.Viability gap funding proposals beyond Rs 50 crores will be approved at the level of the Finance Minister.

10. Project proposals may be posed by either of the following:

(a) The concerned public agency, being either a central ministry or a Government of India agency, or the concerned state government, or urban local body, which owns the underlying assets.

(b) a private party, with sponsorship from the relevant central or slate government agency.

11. Project proposals must be accompanied by a preliminary project appraisal carried out by a public financial institution, as well as a commitment letter on behalf of the lending institutions that they agree to fund the project. The appraisal will cover the following;

(a) Techno-economic viability of the project;
(b) Financial appraisal and project financing arrangements and
(c) Extent and nature of viability gap funding that is proposed

12. Within 30 days of any project being submitted to the Government, the Committee will inform the sponsor whether the project is qualified for funding under this scheme.

13. The project will then be put to bid by the concerned public agency through a transparent and open competitive process. The result of bidding will indicate the extent of viability gap funding that is actually required.

14. The lead financial institution shall present its detailed appraisal of the technical and economic viability of the project as proposed by the successful bidder, for the consideration and approval of the Committee / Finance Ministry.

15. The transfer of the viability gap funds and the schedule of such transfers wili be approved by the Committee.

16. The lead financial institution, will be responsible for regular monitoring and periodic evaluation of. project compliance with agreed milestones and performance levels.

17. The lead financial institution wili release the viability gap funding support to the project authorities when due and obtain reimbursement from DEA.

18. These guidelines will be reviewed in the light of experience gained after the first year of operation of the facility.